

California's Decoupling Policy



California's decoupling policy is largely responsible for making California the nation's most energy efficient state, while promoting economic growth.

How decoupling works:

- Utilities submit their revenue requirements and estimated sales to regulators.
- The CPUC sets the rates by regularly applying adjustments to ensure that utilities collect **no more and no less** than is necessary to run the business and provide a fair return to investors.
- Any excess revenue gets credited back to customers.
- Any shortfall gets recovered later from customers.

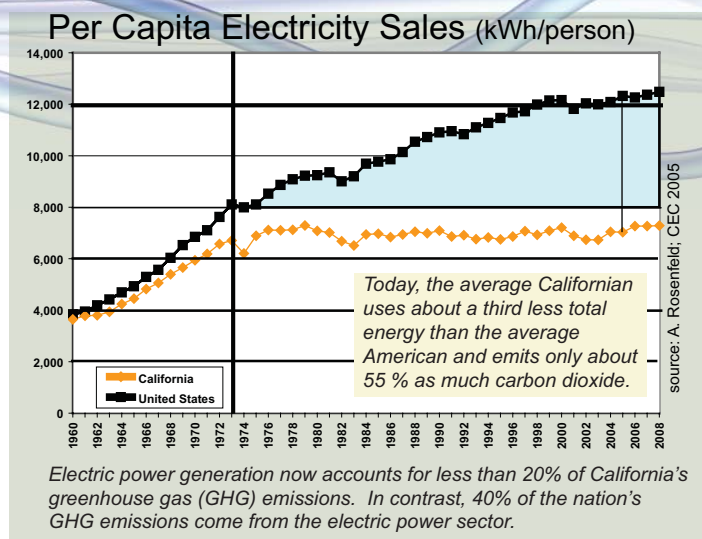
Why decoupling works:

- Breaks the link between the utility's commodity sales and revenues.
- Provides an incentive for utilities to focus on effective energy efficiency programs and invest in activities that reduce load.
- Aligns shareholder and customer interests to provide for more economically and environmentally efficient resource decisions.

California's investor-owned utilities administer energy efficiency programs with oversight by the California Public Utilities Commission (CPUC). The CPUC sets aggressive goals for energy efficiency and conservation as the highest priority resource to meet energy needs in a clean, low cost manner and reduce greenhouse gas emissions. Adopted by the CPUC for the natural gas industry in 1978 and 1982 for the electric power sector, California's long-standing "decoupling" policy is designed

to remove the disincentives for utilities to promote energy efficiency and conservation among energy customers. Decoupling ensures that utilities retain their expected earnings even as energy efficiency programs reduce sales.

Under decoupling, California's per capita energy has remained relatively flat over the last thirty years. In perspective, energy use per capita in the rest of the country has surged by 50%.



Energy Efficiency is California's highest priority resource for meeting growing energy needs in a clean, low cost manner and reducing greenhouse gas emissions.

By breaking the link between the utility's sales and profits, decoupling creates an incentive for utilities to sell less energy and focus on energy efficiency.

